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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, January 21, 2003

JOINT PETITION OF

PHILADELPHIA SUBURBAN CORPORATION

CASE NO. PUE-2002-00521

and

AQUASOURCE, INC.

For approval under the Utility Transfers
Act

ORDER GRANTING APPROVAL

On October 4, 2002, Philadelphia Suburban Corporation ("PSC") and AquaSource, Inc. ("AquaSource") (collectively, "Petitioners"), filed a joint petition with the State Corporation Commission ("Commission") requesting approval, pursuant to § 56-88.1 of the Code of Virginia ("Code"), for the acquisition by PSC and the disposition by AquaSource of the stock of AquaSource Utility, Inc. ("Utility"). The Utility is a wholly owned subsidiary of AquaSource, and the proposed transaction will result in an indirect transfer of control of public utilities owned by Utility or its Virginia subsidiaries.¹

¹ Utility owns, directly or indirectly, certificated utility companies regulated by the Commission and other companies that provide water and wastewater service in Virginia. Such companies are referenced herein as the "Virginia Utilities."

PSC, a corporation, organized and existing under the laws of the Commonwealth of Pennsylvania, is an investor-owned water utility holding company serving approximately 2,000,000 residents in six states. Pennsylvania Suburban Water Company, the largest subsidiary of PSC, furnishes water and wastewater service to the public throughout Pennsylvania. Other subsidiaries conduct water and/or wastewater operations in Illinois, Maine, New Jersey, Ohio, and North Carolina. PSC's corporate headquarters and PSW's principal business office are located in Bryn Mawr, Pennsylvania.

AquaSource, a subsidiary of DQE, Inc. ("DQE"), is a Pennsylvania-based energy service company. Utility, a subsidiary of AquaSource, directly or indirectly through subsidiaries, owns and operates water and wastewater systems in 12 states, including Virginia. AquaSource's corporate headquarters is located in Pittsburgh, Pennsylvania.

PSC, Aqua Acquisition Corporation ("Acquisition")², and DQE, Inc., the parent holding company of AquaSource, entered into a Purchase Agreement dated July 29, 2002. Pursuant to the Purchase Agreement, PSC will acquire all of the issued and outstanding shares of common stock; 90% of the outstanding shares of preferred stock of Utility; all issued and outstanding

² Acquisition, a Pennsylvania corporation, is a wholly owned subsidiary of PSC, which was formed to effectuate the proposed transaction.

shares of common stock of AquaSource Development Company; and all of the issued and outstanding common stock shares of The Reynolds Group, Inc.³ In addition, Acquisition will purchase certain non-regulated assets, consisting largely of contract operating agreements with various water and wastewater service providers.⁴ As such, the Virginia Utilities will remain first and second tier subsidiaries of Utility and will become second and third tier subsidiaries of PSC.

The Purchase Agreement provides for a target cash purchase price of approximately \$205 million. The final purchase price may be increased by up to \$10 million or decreased by up to \$25 million as various purchase price adjustments are applied. Such adjustments relate to the achievement of certain operating performance metrics, involving revenue, rate base, and projected customer connections. PSC and Acquisition intend to fund the purchase with cash from a combination of short-term debt, long-term debt, common stock, and/or securities convertible into common stock. The Petitioners represent that the ultimate funding decision will be driven by financial market conditions existing at the time the acquisition is consummated.

³ AquaSource Development Company and The Reynolds Group, Inc., are not incorporated in Virginia and do not transact business in Virginia. Approval to transfer their common stock is not required.

⁴ None of the contract operating agreements involves facilities or end-users located in Virginia, and, therefore, approval is not required.

On October 23, 2002, the Commission issued its Order for Notice and Comment and Extending Time for Review wherein it extended the time for review from December 3, 2002, to February 1, 2003.

Pursuant to that Order, the Caroline County Department of Public works filed comments stating that it had no objection to the proposed transfer.

Staff filed its Report on December 19, 2002. Staff's inquiry of other jurisdictions where PSC acquired utilities revealed that such acquisitions have not resulted in rate increases, service deterioration, or changes in the regulated relationship of the companies acquired by PSC. Staff, therefore, found no indication that the proposed transaction would impair or jeopardize the provision of adequate service at just and reasonable rates and recommended approval of such transaction.

Staff concluded that there appeared to be some benefits that would result from such transaction. These include placing the water and wastewater operations of the Virginia Utilities in the hands of an experienced company whose focus is on the provision of high quality utility service at reasonable prices. The Virginia Utilities' customers will be served by a large, fiscally sound company that has the capability to finance necessary capital additions and has the capability for

substantial economies of scale and scope through mass purchasing of certain goods and the provision of centralized services. The proposed acquisition also offers expanded opportunities to Virginia Utilities' employees for career advancement and professional growth. There was no indication that there are any financial problems that could filter down to Virginia Utilities.

Staff recommended approval of the proposed transaction but stated that such approval should not in any way be deemed to approve any acquisition adjustments associated with the transaction. Such adjustments should be addressed within the context of a future rate proceeding. Staff also recommended that a report be submitted to the Commission within 30 days of closing on the transaction wherein the Petitioners will provide certain detailed information referenced herein. Staff recommended that the Petitioners be required to track costs and savings associated with the merger and identify and quantify any portion of such costs and savings attributable to the Virginia Utilities' Virginia jurisdiction. Staff noted that there may be tax implications with respect to the proposed transaction that may be at issue in future rate making proceedings.

In a letter dated December 30, 2002, counsel for the Petitioners stated that the Petitioners do not object to the recommendations detailed in the Staff Report. In that letter, the Petitioners noted that Staff reserved some positions for

decision in future proceedings. The Petitioners stated that they reserve their rights and the rights of AquaSource Utility, Inc., and its Virginia water company subsidiaries to assert, in future proceedings, any position on rate making issues or other regulatory matters as may be appropriate.

NOW THE COMMISSION, having considered the joint petition, representations of the Petitioners, Staff's Report, and applicable law, is of the opinion and finds that the above-described transfer of control will neither impair nor jeopardize the provision of adequate service to the public at just and reasonable rates and should, therefore, be approved. This approval for transfer of control extends to all utilities owned by Utility and its Virginia subsidiaries providing water and wastewater service in Virginia.

Accordingly, IT IS ORDERED THAT:

1) Pursuant to §§ 56-88.1 and 56-90 of the Code, Philadelphia Suburban Corporation and AquaSource, Inc., are hereby granted approval for the proposed transfer of stock of AquaSource Utility, Inc. Such approval extends to the indirect transfer of control of Alpha Water Corporation, AquaSource SL, Inc., AquaSource Utility-Virginia, Inc., Blue Ridge Utility Company, Caroline Utilities, Inc., Earlysville Forest Water Company, Heritage Homes of Virginia, Inc., Indian River Water Company, James River Service Corporation, Lake Monticello

Service Company, Land'Or Utility Company, Inc., Mountainview Water Co., Inc., Powhatan Water Works, Inc., Rainbow Forest Water Corporation, Reston/Lake Anne Air Condition Corp., Sydnor Water Corporation, Water Distributors, Inc., Sydnor Hydrodynamics, Inc., Ellerson Wells, Incorporated, and Mayfore Water Company, Inc.

2) The approval granted herein shall have no rate making implications.

3) The approval granted herein shall in no way be deemed to include approval of any acquisition adjustments related to the above-referenced acquisition.

4) The Petitioners shall be required to track costs to achieve the merger as well as savings achieved as a result of the merger and shall identify and quantify any portion of such costs and savings attributable to the Virginia Utilities' Virginia jurisdiction. Costs and savings shall be tracked for five years from the date of closing and shall be made available for Staff review.

5) The Petitioners shall file with the Commission a report of the action taken pursuant to the approval granted herein within thirty (30) days of such action taken, subject to extension by the Director of Public Utility Accounting. Such report shall include the date the acquisition took place and the

actual price paid by PSC for the stock of AquaSource Utility, Inc.

6) There appearing nothing further to be done in this matter, it hereby is dismissed.